

VZCZCXYZ0004  
OO RUEHWEB

DE RUEHQT #1062/01 3192233  
ZNY CCCCC ZZH  
O 142233Z NOV 08  
FM AMEMBASSY QUITO  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 9610  
INFO RUEHBO/AMEMBASSY BOGOTA PRIORITY 7830  
RUEHCV/AMEMBASSY CARACAS PRIORITY 3261  
RUEHLP/AMEMBASSY LA PAZ NOV 1285  
RUEHPE/AMEMBASSY LIMA PRIORITY 2892  
RUEHGL/AMCONSUL GUAYAQUIL PRIORITY 3908

C O N F I D E N T I A L QUITO 001062

SIPDIS

E.O. 12958: DECL: 11/14/2018  
TAGS: [EFIN](#) [ECON](#) [EC](#)  
SUBJECT: ECUADOR DELAYS DEBT PAYMENT BECAUSE OF ALLEGED  
IRREGULARITIES

Classified By: Classified by DCM Andrew Chritton. Reason: 1.4 b and d  
.

[¶1.](#) Summary. (C) Ecuador announced on November 14 that it would delay an international interest payment up to 30 days. It will use that period to investigate assertions of a debt commission report (to be released on November 20) that the debt issuance was tainted by irregularities. President Correa will hire international lawyers to advise him. There appears to be disagreement within the government on how to proceed, and this may be a delay orchestrated by President Correa to give him time to decide whether to honor the debt. End summary.

[¶2.](#) (U) On November 14, Finance Minister Elsa Viteri announced that Ecuador would not make a \$30 million interest payment due on its commercial bond known as the Global 2012 (payment is due on November 15, a Saturday, so payable on November 17). Instead, Ecuador would take advantage of a 30-day grace period permitted by the bond contract.

[¶3.](#) (U) In making the announcement, Viteri said that a commission established to investigate Ecuador's foreign debt had presented its report to President Correa, and that the report would be released on November 20. Viteri said that the report asserts that there were irregularities in the issuance of the Global 2012 bonds. Ecuador would use the 30-day grace period to have international lawyers (hired by Correa) review the debt report and advise Correa whether it should pay the debt.

[¶4.](#) (U) Viteri was asked during the conference if this decision also applied to another bond issuance, the Global [¶2015](#). Viteri replied that the government is currently focused on the Global 2012 because of the pending interest coupon, but added that other debt issuances are also addressed in the report. In responding to a follow-on question about multilateral debt, Viteri said that the report only addresses commercial debt.

Intragovernmental Disagreement  
-----

[¶5.](#) (SBU) Vice Minister for Finance Roberto Murillo resigned on November 13, leading to market speculation that day that Ecuador might default. A report released by an Ecuadorian consulting firm after Viteri's announcement stated that the evening of November 13 there was a lengthy and evidently difficult senior government meeting, which possibly led to Murillo's resignation.

[¶6.](#) (C) EconCouns contacted an advisor to Finance Minister Viteri the evening of November 13. The advisor reported that he was not privy to the debt discussions, which he said were being conducted with a great deal of secrecy. He did say

that Ecuador had the capacity to pay, so any non-payment would be a political decision, and that only President Correa could make such a decision.

#### Immediate Credit Downgrade

¶17. (U) The same day as Viteri's announcement, Standard and Poor's lowered Ecuador's credit rating three notches, from B- to CCC- and placed Ecuador on its negative watchlist.

#### Comment

¶18. (C) After Correa took office in 2007, his then-Finance Minister Ricardo Patino first suggested that Ecuador may not honor its debt and then suggested that Ecuador would take advantage of the 30-day grace period before making a February interest payment. However, Ecuador made the interest payment on time, a decision that was also made by Correa, probably in part because of the penalties that would have been incurred in delaying the payment. Since then Ecuador had made all of its commercial debt payments on a timely basis.

¶19. (C) Patino, who has been critical of Ecuador's debt obligations (he founded an NGO that sought to restructure Ecuador's external debt), was transferred out of the Ministry of Finance to other ministerial positions, but remained as head of the debt commission. He has evidently authored a report that is critical of Ecuador's commercial bond issuances, and the November 20 release of the report has created awkward timing for making the November 17 interest payment.

¶10. (C) We strongly suspect that the consultant's report about a lengthy and difficult governmental meeting is true, and assume that the Ministry of Finance argued for payment and that Patino argued for nonpayment because of the alleged irregularities. Viteri's announcement about using the 30-day grace period strikes us as a delaying tactic and compromise as Correa deliberates between the two sides. Until now, he has usually sided with the pragmatists, but the pending release of the debt report limits his ability to maneuver. The decision to hire international lawyers is an interesting tactic. If Correa were to hire relatively mainstream lawyers, they could advise him to honor Ecuador's debt obligations, which might give him the cover to continue servicing Ecuador debt. So, his choice of lawyers might signal how he is leaning on this issue.

HODGES